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# UniCredit S.p.A. (UNCRY) Q3 2024 Earnings Call Transcript

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## Q3: 2024-11-06 Earnings Summary

EPS of $0.85 beats by $0.01 | Revenue of $6.59B (4.31% Y/Y) beats by $90.20M

UniCredit S.p.A. (OTCPK:UNCRY) Q3 2024 Earnings Conference Call November 6, 2024 4:00 AM ET

**Company Participants**

Andrea Orcel - Chief Executive Officer
Stefano Porro - Chief Financial Officer

**Conference Call Participants**

Antonio Reale - Bank of America
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Chris Hallam - Goldman Sachs
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**Andrea Orcel**

Good morning. And thank you for joining us today as we present another record set of results, ushering UniCredit in a new era of sustainable quality growth. I apologize in advance for my voice, but I'm a little bit under the weather.

Over the last four years, UniCredit has undergone a successful transformation, achieving 15 consecutive quarters of quality growth and improvement, outperforming peers across all KPIs, and poised to establish a new sustainable run rate in 2024, a base from which we intend to grow.

Our record-breaking results in Q3 and over the past nine months are further testaments to our success driven by the contribution of our people. Sustainable quality growth for us means a growing bottom line that does not sacrifice a top line of exceptional quality driven by profitable NII and growing rate of fees, combined with operational and capital excellence.

This delivers best-in-class profitability and organic capital generation, enabling us to return outsized distribution to our stakeholders. This is the benchmark we intend to set. Our transformation has ushered us into a new era where the work we have undertaken to strengthen our business will become even more apparent, and the full extent of our transformation will finally be for everyone to see.

With our structural strengths fuelled by unique accelerators and a clear quality growth trajectory, we are well prepared to navigate a challenging macro environment. We are excited about the future and look forward to continuing to deliver exceptional results for all our stakeholders, as confirmed by our upgraded 2024 guidance and future ambition.

UniCredit Unlocked has proven to be a winning, flexible strategy built to adapt to a changing environment. Anchored by our vision of becoming the bank for Europe's future, it delivers consistent value to all stakeholders, setting a new benchmark in banking.

Our strategy is entirely client-centric. We empower our people in a streamlined organization. We offer best-in-class products, both in-house and through partners, benefiting from group-wide scale. We leverage reliable digital and data capabilities to enhance the client experience, all to serve our clients where and when they need us, across a fully integrated channel.

All this is underpinned by a culture of empowerment, accountability and continuous improvement. Over 15 consecutive quarters, this strategy and the dedication of our people allowed us to achieve sector leadership across key metrics. We lead in net revenue to RWA, cost-income ratio and return on tangible equity at 13% CET1.

Our EPS growth and total distributions are also best-in-class. We are operating on a completely new run rate versus 2021. Our net profit is 5x higher, our return on tangible, 3x higher, our organic capital generation, 2x higher, and so are our distributions.

This quarter, we again achieved impressive results, driven by our focus on profitable NII, increased fees and improved operational and capital efficiency. All this leads to superior return on tangible equity and organic capital generation to support best-in-class distributions.

Given the backdrop of rates and path-through normalization, the profitable growth in NII of 3% in the nine months and almost flat performance sequentially quarter-on-quarter is particularly impressive. This performance is a direct result of our diversified geographic mix, a continued shift to higher risk-adjusted profitability clients and products, and our strict discipline on deposit path-through.

Overall cost of risk remain well below our target at 9 basis points for nine months, thanks to continued significant write-backs, again underscoring the conservativeness of our provisioning policy.

As such, net NII dynamics mirror gross NII. Our fee income grew 7.2% in the nine months and an impressive 8.5% in the quarter year-on-year, with fees-to-revenue reaching 33% and 32%, respectively, thanks to our investment in the business and the focus of our people on our clients.

Our focus on operational efficiency while investing and capital efficiency while targeting profitable growth continue to set the benchmark for the industry. Absolute cost declined by 1.2% over nine months and 1.4% in the quarter year-on-year, with our cost-to-income ratio at industry-leading level of 36.6%, 2.5 percentage points better than a year ago.

Our net revenue to RWAs reached 8.9% of circa 1 percentage point from a year ago. RWAs were reduced to EUR 278 billion. It is this combined performance across multiple levers that allowed us to reach a record return on tangible equity at 13% CET1of circa 23.3%, about 20% reported, for both the nine months and the quarter.

A record organic capital generation of EUR 10.1 billion or 357 basis points for the nine months while increasing our CET1 ratio to 16.4% per investment. Net profit growth of 16% in the nine months and 8% in the quarter. In the nine months, our EPS increased by 31%, accrued DPS by 48% and tangible book per share by 20%.

Let's now look at the P&L in detail. Net revenue increased 5.4% to EUR 18.6 billion in the nine months and 2.6% to EUR 6 billion in the quarter. This is a result of; one, resilient NII despite lower rates and best-in-class NII RoAC at circa 19% in the quarter, well above the cost of equity.

Two, top-tier fee to revenue, which continues to gain momentum. Three, LLPs, still a low point and stable, still benefiting from right-back, confirming quality origination and conservative provisioning. Four, trading and others continues to be solid despite the impact from the Commerzbank investment.

Despite the reduction in rates, we have successfully maintained a stable NII both quarter-on-quarter and year-on-year. This achievement is testament to our effective deposit path-through management, resulting in path-through rate of 32% in the third quarter and growth strategies in selected areas.

Our focus on quality has led to constrained overall volume growth, but it has also resulted in our NII RoAC reaching approximately 19%, well above our cost of equity. This has put us in a position of strength as we weather the impact of rates normalization. This approach has been crucial in maintaining our financial stability and ensuring our continued success.

Our cost of risk remained low at nine basis points for the first nine months, in line with the same period last year. This achievement is largely due to significant right-backs in Russia and elsewhere. This will eventually abate, bringing our cost of risk closer in line with our expectation.

Our performing portfolio is highly covered and is of high quality. Our gross non-performing exposure stock and net NPE stock remain stable at 2.7% and 1.4% respectively. This stability reflects our discipline approach to managing non-performing exposures and maintaining a healthy balance sheet.

Our fees have experienced a significant increase across all main categories, growing by 7% over the first nine months of the year and 8.7% excluding the current account and securitization cost and 8.5% year-over-year. Our fee-to-revenue ratio stands at a top tier 33%, highlighting the quality and diversification of our fee base.

We continue to see strong momentum in assets under management and non-life insurance, driven by increased client appetite and a broader product offering. Payments and current account performance is driven by payment, up 6% over nine months while down 3% in the quarter due to a change in contractual incentive features in Italy. We expect to catch up by year end.

Our advisory and financing services have also seen strong acceleration reflecting the benefit of our past investments and a supportive environment. We believe we are the only bank that has consistently reduced our absolute cost base during the last two years of setting inflation across our footprint while increasing revenues and investing in the business quarter-over-quarter.

This quarter and nine months are no exception. We've cost down respectively 1.4% and 1.2% year-over-year. Our cost-to-income ratio has improved to 36.6%. We lead in our peer group. This achievement is a result of strong discipline combined with a targeted approach to streamlining our organization and reducing unnecessary overhead. Our operational excellence has been a key factor in our success and we intend to defend it.

Our best-in-class organic capital generation of EUR10.1 billion in the nine months and EUR 3.5 billion in the quarter has allowed us to accrue 100% of net profit for distribution while increasing CET1 to 16.4% pre-investment versus 15.9% in full year 2023.

This quarter, we have also absorbed the initial capital impact of various strategic investments that will propel our results in the future. These include building a stake in Commerzbank, committing towards our insurance internalization, acquisition of Aion/Vodeno and of Alpha Bank in Romania. Some further capital consumption is expected from these stakes in the future.

Group RWA increased slightly as almost EUR 5 billion of reduction was more than offset by the impact of strategic investments. We expect RWA to increase by a few billion next quarter. Looking to Basel IV, the full year impact is expected at around 70 basis points as we implement mitigation action on credit risk while the initial impact in Q1'25 will be around 90 basis points.

As we look at our region and product factories, I would like to remind you that UniCredit is more than the sum of its part. Our achievements stem from a collective effort across regions and factories, each contributing to our overall strengths, but all coming together as one group that is worth far more than the sum of its part.

Italy. Italy continued to deliver high profitability and growth underpinned by earnings quality and operational and capital excellence. Net revenues were up 5% in the nine months, reaching EUR 8.2 billion with a quarter up 3%. NII was up 5% in the nine months and remarkably 1% in the quarter with rates reduction more than compensated by the continued improvement in the mix of our business and strong management of the pass-through.

Cost of risk remained mild at 28 basis points for the nine months and the quarter, showing continued stability. Fees were up 7% in the nine months and 9% in the quarter with all product contributing and particular strengths in investments, non-life insurance where we continue to grow our market share and advisory capital market.

Operational excellence was maintained. Costs were broadly flat in spite of the salary contract renewal, inflation and investment in growth within the business. Cost income ratio was reduced yet again to 34% in the nine months. Our focus on capital efficiency further increased our net revenue to RWAs by 1.4 percentage point to 10.5%.

Profit before tax rose 17% in the nine months to reach EUR 5 billion, up 19% in the quarter. RoAC reached 33% in the nine months. The region generated EUR 4.4 billion or 156 basis points of capital organically, confirming it as a quality earnings powerhouse.

Our client and community remained at the heart of our operation as we rolled out the third iteration of UniCredit per l'Italia to support individuals and SMEs in navigating the continued challenging external environment. With the recent flooding in the [inaudible] region, UniCredit provided a program of financial support and flex for individual, small businesses as well as providing financial and practical help for people.

The full benefit of the investment in UniCredit University became more apparent this year, increasing its access to training and up-skilling for our people. The University also played a critical part on the landmark agreement with the Italian unions which saw 600 employees moving into a bespoke risk-killing and re-deployment program.

Germany. Germany remains an anchor country for UniCredit and has once again surpassed expectations delivering its best nine months and third quarter profit in over a decade. These results are thanks to continued discipline in improving the quality and profitability of our top line and the increased efficiency of our operations. These factors underscore the strengths of this franchise, both within its home country and as a core contributor to UniCredit.

Net revenue was slightly down 1% in the nine months, as strong fees only partially compensated for a slight higher cost of risk. The quarter was up 6%. NII was down 5% in the nine months, driven by higher funding costs in client risk management. The quarter was up 7% as this trend started reversing.

Cost of risk was marginally up in the nine months to 19 basis points, driven by two large corporate default in Q1 and Q2, mitigated by a prudent coverage ratio. Q3 was back to trend line at 16 basis points.

Fees were up 2% in the nine months, accelerating to 7% year-on-year, driven by investment, financing, and payments of a strong base. Operational efficiency continued to improve, with costs down 7% in the nine months and 9% in the quarter. This led to a cost income ratio of 39.4% in the nine months.

Our capital efficiency improved further, with net revenue over RWA increasing 0.8 percentage point to 8% in the nine months. Profit before tax rose 17.5% in the nine months to EUR 2.3 billion, and up 17% on a year-on-year basis, RoAC reached 22%. Germany generated EUR 2.3 billion, or 82 basis points of capital organically, in the nine months.

Germany continued to deliver on its commitment to invest in its business, with a particular focus on the network. Training and up-skilling was rolled out for 1,300 employees, enabling us to retain our talent, providing the opportunity for our people to broaden their skill set and adapt to new roles in our private and corporate banking divisions.

Germany was this year named top employer in Germany, and was instrumental in UniCredit being the first bank in Europe to achieve a Global Edge Certificate. It picked up seven Euromoney Awards for its performance across all of its key markets.

Central Europe continues to be a dynamic region, delivering resilient growth and continuing to improve operational and capital excellence. Net revenue were up 3% in the nine months, reaching EUR 3.3 billion, driven by strong fees and resilient NII, while slightly down in the quarter due to lower rates and higher deposit path through.

NII was up 1% in the nine months, remaining resilient amidst the declining rates environment. The quarter was down 8.5% year-on-year due to lower rates, higher deposit path through, particularly in Austria and Hungary, and a time delay in repricing savings accounts in Austria that shall be reversed at a later date.

Cost of risk had net reversal of four basis points in the nine months due to write-backs in Q1 and Q2, while at zero basis points for the quarter. Fees were up an impressive 10% in the nine months, thanks to strong investment services and a large advisory mandate in check in Q2. Excluding such mandate, fees were up 8%.

As with evolve our markets, the striving for operational excellence continued, with costs slightly decreasing in the quarter and growing by only 1% in the nine months. Cost-income ratio reduced yet again by 1% to 36.5% in the nine months, reaching 36.6% in the quarter. Our focus on capital efficiency led to an increase in our net revenue to RWA of 0.3% to 7.4%. Pre-tax profit rose 9% in the nine months to in excess of EUR 1.9 billion, resulting in a RoAC of 24%.

The region generated a record EUR 1.7 billion or 61 basis points of capital organically in the nine months. As the core gross engine of the group, within our surging markets, Eastern Europe delivered again across all revenue streams.

Net revenues were up 14%, reaching EUR 2.2 billion in the nine months, with flat performance in the quarter due to LLP normalization. NII was up 11% in the nine months, driven by strong commercial growth with a quarter plus 2% year-over-year, with strong business growth across the region and good path-through control compensating for rate reductions. Cost of risk had net reversal of 34 basis points in the nine months due to Q1 and Q2 write backs. Q3 cost of risk moved towards trend line at 12 basis points, as most of our write backs reduced.

Fees were up 10% in the nine months, with a quarter up 5% year-over-year, driven by a positive momentum across all categories and supported mainly by client hedging fees and payments. As with all our markets, operational excellence remained a focus, balanced with investment in our business, people and technology. These commitments saw costs increase just 3.5% in the nine months and in the quarter, offsetting most of the region's high inflation due to wage drift.

Cost-income ratio reduced yet again to 30.3% in the nine months, and our focus on capital efficiency further increased our net revenue to RWA by 0.3 percentage points to 9.8%. Pre-tax profit rose 20% in the nine months to EUR 1.5 billion, with flat performance in the quarter due to LLP's normalization, resulting in a RoAC just below 40%.

As with all our markets, our banks across the CEE remain focused on supporting those communities within which they operate, with Austria along with Czech and Slovakia providing emergency aid packages for those sadly impacted by the recent flooding.

Our cross-market partnership with Teach For All and Junior Achievement Europe, continue to receive both financial and practical support from the teams on the ground. Internally, our next generation of employees were supported through bespoke peer-to-peer training for junior and digital skill training at all levels, to ensure advanced skills and tools to thrive in a digital era.

Our strategy in Russia has been to work towards an orderly solve and wind-down as quickly as possible, always within both the letter and the spirit of complex legal, regulatory and sanction limitation.

Last quarter, we communicated our targets for full year 2025. We have already nearly met them. Local deposits are down 27% this quarter and 77% since Q1, 2022, from EUR 8.3 billion to EUR 1.9 billion, already below our 2025 target. Local loans are down 31% this quarter and 78% since Q1 ‘22, from EUR 7.3 billion to EUR 1.6 billion, closing on our below EUR 1 billion target for 2025.

Cross-border exposure remained flat this quarter as most of the position will mature next year. Since Q1 2022, we are down 95% from EUR 4.5 billion to EUR 300 million, whilst minimizing our loss to 11% of principal. Cross-border payments are down 19% this quarter and 64% since Q1, 2022, from EUR 25.3 billion to EUR 25.9 billion, almost at our 2025 target. Cross-border payments are now strongly concentrated in U.S. dollar, cleared by JP Morgan, and euro, cleared by us.

Our euro payment volumes, which account for under one-third of the total were almost 55% between Western multinationals and socially oriented companies. We have reduced the capital impact of a full write-down of Russia from circa 130 basis points on a 14% CET1 ratio in Q1 2022 to circa 50 basis points on a 16.1% CET1 ratio today. Given the progress made, we will review further next steps regarding Russia, and will communicate them in due course.

Turning to our product factories, we see strong performance across the board. Client solution revenue grew by 8% in the nine months to EUR 8.6 billion. Two-thirds are fees, growing at the same pace and well-balanced across all our factories. Corporate solution revenues rose by 7% to EUR 4.1 billion in the nine months, driven by advisory and financing up 6%, 18% excluding securitization costs, and CRM up 11%.

Payment solution rose by 4% to EUR 2 billion, driven by payments up 9%. Individual solution rose by 13% to EUR 2.5 billion, driven by investments up 17%. One market grew to EUR 11.6 billion AUM, also supported by the Azimut Partnership in Italy, confirming the attractiveness for clients of our offer.

Our transformation has led to remarkable results. We have focused on superior quality top-line growth, coupled with best-in-class operational and capital efficiency, resulting in best-in-class profitability and distribution. By making this our focus, we have registered the highest NII RoAC at 20%, almost double the peer average.

Our stated fees and insurance income growth for full year ‘21 to the first half of ‘24 was an impressive 24%, five points higher than the peer average. Additionally, our fees-to-revenue ratio for the same period was 34%, seven points higher than our peers. We have reduced our cost-income ratio to 36%, 15 points below the peer average. We have improved our net revenue-to-RWA ratio to 9%, two points above our peers.

Delivering on our three levers has led to superior profitability and distribution. Our return on tangible equity at 13% CET1 ratio was over 23%, 10 points higher than the peer average. Our distribution year at circa 14% is 5 percentage points higher than our peer average.

As the industry faces headwinds, UniCredit stands ready to reveal its true differential value, qualities that were previously masked by favorable market environment. We acknowledge the challenges set at NII headwinds, inflationary pressure on cost, cost of risk normalization, compression of Russia, and digital evolution, but we are confident in our ability to leverage our unique levers to overcome them.

Differently from four years ago, we start from a leadership position in terms of performance. We know our strengths, our geographic client and product mix that we have been able to unify and leverage as one group. Powering this are several accelerators, the transformational initiatives in flight, our lines of defense, and our strategic flexibility.

Finally, we have a quality growth trajectory which is relentlessly executed by people proven to be able to deliver alpha. Our unique geographical reach is one of our structural strengths, providing us with a diversified presence across 13 European markets. We are one federation of individually empowered banks, all executing independently, while leveraging significant cross-border flows.

Simplifying, 41% of our net profit comes from Italy, a quality earnings powerhouse that combines a fee-to-revenue ratio in excess of 40%, pro forma for insurance internalization, and increasingly profitable NII with outstanding operational and capital efficiency.

The next 30% comes from Germany and Austria, both highly rated economies that act as anchors of resiliency for the group, and that are well advanced in an operational efficiency and greater client-focused turnaround.

The final 29% comes from Central and Eastern Europe, our proven engine for profitable growth, all within Europe, which increasingly puts our group's growth expectation at a premium to the peer group.

We've had the perfect combination of highly capital-generative and resilient regions, balanced with dynamically growing ones, all truly coming together in one group. This allows us to benefit from our global product offering, procurement, and technology infrastructure at scale, further enhancing our competitive edge. This has enabled us to occupy a dominant position across Europe with our individual leading position in each country, all significantly beating their cost of equity and connecting client across Europe like no other.

Our client franchise and product mix are core to our quality growth strategy. While we maintain our focus on large corporates and mass market individual, we have been decisively tilting our client mix towards SMEs and private and affluent individual. We have also been building our factories to provide our clients with a broader array of products and services that they require. This strategy has been successful as demonstrated by our gaining market share in payments, in investments, in insurance, in consumer finance, and in trade finance.

In parallel, we continue to enhance our distribution model towards a fully integrated distribution of, that combine digital innovation with personalized, human interaction in various forms. This is at the origin of the work we have done on call centers, digital branch with Buddy, physical branch, and internet and mobile.

Last but not least, we're investing in our people, some of the best in the industry, retraining them where necessary at the UniCredit University, and providing them with a product, distribution channel and tool such as new risk models and client's data that they need. Whilst we have transformed into an industry leader focusing on delivering quality growth, we still have unique accelerators to propel us further. We're making transformative investment that will drive our progress and ensure we remain at the forefront of our industry.

Our lines of defense are strong and ready to protect or propel our continued growth and success. Strategic investment remain a potential accelerator, helping us to achieve our goal faster, more efficiently and effectively. We're committed to making these investments, but always within our strict investment criteria.

UniCredit has invested in Commerzbank, because we believe it can be a much better and stronger bank, particularly in and for Germany, better and stronger for its people, for its customer, and for its communities. This is true standalone, where most of the potential improvement lies, and even more so as a combined entity with HVB. As an industrial investor that has successfully overcome the same challenges, our aim is to see Commerzbank unlock its significant unrealized potential.

Indeed, as we all know, having potential on paper is not the same as crystallizing it. UniCredit unlocked, and indeed HVB unlocked, is a blueprint of what can be done, but we are open to alternative solution and await these being outlined at Commerzbank Investor Day. As a possible additional option, the combination of Commerzbank and HVB could generate even greater value and opportunities for all employees, clients and communities.

But as we said before, this will depend on the outcome of engagement with Commerzbank, its management supervisory board, as well as its wider stakeholders in Germany. A combination could offer Germany a bank operated by a fully empowered German legal entity, but could more effectively compete in its home market and beyond. It will also insert mBank and Poland within the broader UniCredit franchise, both in the CEE and Europe as a whole.

mBank would be provided with a capital, product and services, and indeed client connection across our 13 countries, plus one, to accelerate its growth and achieve its full potential. For UniCredit, such a combination would further transform the group and accelerate its path to become the bank for Europe's future, whilst crystallizing significant additional value creation to our base case.

Italy, Germany, Austria, and Central and Eastern Europe would have a balanced contribution to the Group and set its direction, strategy and ambition for the future, that they would then be fully empowered to individually achieve.

Above and beyond what I just said, I would like to highlight a number of facts with respect to the two banks that support our strongly held views. HVB and Commerzbank, excluding mBank and the opaque assets held at Corporate Centre, are mirror images of each other. They are identical in many ways, but also highly complementary. Our respective geographic presence makes us a perfect match. HVB covers mainly the southern and the northern part of the country, while Commerzbank is mostly present elsewhere in Germany.

In Corporate, we're all but the same. We both cover large corporate, as do many other banks, most Europeans through branches or U.S. banks. Whilst the combined institution would have the scale, product and services to better support large corporates in Germany, it is the Mittelstand clients who would benefit most from a combination. We would be able to provide deeper and broader support and services to these companies who are at the heart of so many German communities and are the lifeblood of the economy.

Commerzbank Mittelstand clients could gain access to our market-leading suite of products and more comprehensive financing solutions, boosting their opportunity for growth domestically and internationally. Combined with our enhanced technology offering, we have the potential to become a larger, more profitable one-stop shop for the Mittelstand in Germany, across Europe and beyond.

On the retail side, Commerzbank revenues are 2.1x HVB's, although HVB has 4x the revenue per retail client, both because of mix and because it can rely on our group product factories. The two banks are complementary geographically and by client segment, with HVB more focused on private wealth and affluent. The larger weight of retail in Commerzbank Germany operation would nicely balance HVB's higher weight of corporate.

Having now addressed the point on similarity and complementarity of the two franchises that would support a potential combination with minimal impact on its client and frontline employees, let me now address with facts some of the other concerns that have been raised around this potential combination.

Let's start with risk, both a protection of deposit and in terms of financial strengths. Far from being a concern, in the unlikely situation where deposit protection would be needed, HVB deposits are insured by the same German government deposit scheme as Commerzbank. In fact, during the crisis, HVB and UniCredit at group level continued to function without any need for government support, maintaining an orderly service to our clients.

In addition, clients of both banks benefited from additional protection of company capital and other resources, which are greater in the case of HVB, both standalone and relying on UniCredit group. Indeed, both HVB and UniCredit have a greater common equity Tier 1 ratio than Commerzbank. Above 23% and 16% respectively, Commerzbank stands at 14.8%. This is further underpinned by a far greater level of profitability and efficiency at both UniCredit Group and HVB versus Commerzbank.

This brings us to ratings. At group level, UniCredit has recorded a consistently steady improvement in its ratings, with Fitch only last week raising again the rating of UniCredit to one notch above Italy's on par to Commerzbank. At HVB local legal entity level, the relative comparator to Commerzbank, the two banks are practically on par, as underscored by their similar cost of funding in Germany.

Finally, Moody's has already indicated that a merger far from leading to a rating downgrade could warrant a rating increase at the parent company level benefit all banks. And as it relates to concern for stakeholders, we take pride in the investment we make in our employees and the commitment we have made to reskilling and retraining all colleagues to ensure that they can grow and develop in line with our industry.

Where efficiency have to be looked at, the challenging yet constructive dialogue that we have with employees' representatives, have resulted in outcomes that have worked well for all those involved. And to our clients, and the notion of overlap, far from being duplication, HVB and Commerzbank are highly complementary, so concentration should not be an issue.

This client commitment is reflected in the federal nature of our business, where to be clear, the day-to-day running and decision-making for Germany occurs in Germany, and it could not be otherwise given regulation. This is also consistent with UniCredit Unlocked and our approach to empowerment of those closest to the client, or the matter at hand, as opposed to those at the center.

Our shareholders have benefited from 15 quarters of consistent growth and financial rewards, repaying us with their long-term and often vocal support. Any discussion around current investment and future options must be underpinned by facts, rather than unsubstantiated views and opinions, hence the need for this clarification.

If we now go back to the symmetry already outlined, all stakeholders should be able to compare relative performance of Commerzbank Germany, ex-corporate center in HVB, and HVB like-for-like, based on simple KPIs, even before discussing the benefit of a potential combination.

Let me now go through a comparison of the operating performance of the two banks in Germany, as this is the real crux of the issue. If we take as reference the 2021 first half – to first half '24 period, that saw both UniCredit and Commerzbank deliver on their respective plans, the performance of both banks in Germany speaks for itself.

HVB delivered much greater revenue growth, mostly driven by fees, achieved with much greater capital and cost efficiency. This all led to twice the net profit growth and RoAC of Commerzbank, notwithstanding Commerzbank benefiting to a much higher degree from the positive rates environment, given their greater weighting to retail.

As such, HVB has been able to distribute its yearly net profit in 2022 and 2023, while increasing its CET1 to circa 24% as of the third quarter of '24, while Commerzbank has distributed on average over the same period, only 40% of its net profit, reaching a CET1 of 14.8%. There is no reason why Commerzbank in Germany, should not have the ambition to at least match what has been achieved by HVB, which is still progressing further as the results of today demonstrate.

Our investment in Commerzbank is both strategically and financially justified given what I have just taken you through. The potential to generate substantial value for both institutions is there. The question remains whether it shall be unlocked by Commerzbank alone, through a combination or not at all.

We have purposely structured our investment to provide us with optionality, to either benefit from the crystallization of Commerzbank potential or to exit with protected downside for our shareholders' benefit. We have clear managerial action that will allow us to offset the headwinds from the normalization of the environment and the compression of Russia, to eventually secure sustainable quality growth.

Our aim is to further strengthen the unparalleled quality and profitable mix of our top line, increasing our fee base to 40% of total revenue, while keeping NII RoAC well above our internal cost of equity. To achieve this, we will continue our client and product mix shift, further leverage our product factories and better integrate them with our front lines. The internalization of insurance and retention of the asset management value chain will provide a further boost.

We are committed to operational excellence while investing in business optimization. Our replicating strategy, and quality approach, will help us benefit from lower sensitivity to rates. We will maintain a cost of risk at 20 to 25 basis points over the cycle, also leveraging overlays.

Our financial projections mean we are confident in upgrading our 2024 guidance. If we compare our performance like-for-like with our guidance at the beginning of 2024, so excluding integration and average charges and investment, we currently expect our net profit to be around EUR 10 billion, with NII more or less flat year-over-year. Like-for-like, this is more than EUR 500 million higher than 2023.

That said, we anticipate closing the year with a net profit above EUR 9 billion. Although the ultimate number depends on our decision on integration and average charges, integration charges are expected to exceed EUR 500 million. There is much discussion as to the impact on the bottom line of European banking sector due to the much lower rate environment and higher cost of risk.

For us, there is also the compression from Russia to be considered. As a result of our unique levers, fee and geographical diversification, and the decisive action taken over the recent year, we are confident that we will maintain a run rate of at least EUR 9 billion in each of ‘25 and ‘26. For now, that is a strong ambition of the people of UniCredit.

This is a testament to how well our underlying business is performing. We expect costs to remain broadly flat in the next couple of years on the same perimeter. The perimeter as such will change as we internalize life insurance, complete the merger in Romania and integrate Vodeno/ Aion. And therefore, group fixed costs will increase, although with no impact on the net profit guidance for ‘25 and ‘26.

We are increasing our return on tangible equity ambition to circa 17% and are looking to continue EPS and DPS strong growth. Annual average distribution for 2025 and 2026 of greater than for 2024 means that our shareholders will continue to be rewarded handsomely.

We also have recently announced that we will increase the dividend accrual from next year to 50%, of net profit from 40%, as a sign of our confidence in the sustainability of our financial performance. And we remain with EUR 6.5 billion of excess capital, which we will return or deploy strictly within our metrics by 2027 latest. The investment case for UniCredit remains exciting and compelling.

To conclude, I will leave you with five key reflections on today's results. Today's numbers reflect the output of a fully transformed bank. One that has moved away from retrenchment and is industry leading across all KPIs. These results prove the success of our UniCredit Unlocked strategy and usher in a new era of quality growth.

Two, these are record results. With our best ever Q3 and nine months result, marking 15 consecutive quarter of profitable growth with improvement across all key metrics. We have upgraded our guidance for ‘24, given we are operating on a completely new run rate compared to ‘21. Our net profit is 5x higher. Our return on tangible 3x. Our organic capital generation over 2x, supporting our distribution that are more than 2x higher.

This new era of sustainable quality growth will be powered by conditions that are unique to our bank. We start from a position of strengths and our structural strengths as a pan-European group are accelerated such as a strategic investment in Vodeno and Commerzbank, and our clear growth trajectory will support that quality growth. Structural strengths include unique geographic client and product mix, underpinned by empowered countries leveraging group skill and scope.

Idiosyncratic accelerators defined by our continued transformation initiatives, our line of defense release and strategic flexibility which has allowed us to invest in Vodeno, Romania and Commerzbank. And our clear growth trajectory executed by people passionate about our business proven repeatedly to be able to deliver Alpha.

Finally, thanks to our new run rate and the investment we are making. We have great confidence in meeting our ‘25 and ‘26 ambition. Thank you everyone. Let’s move to questions.

**Question-and-Answer Session**

**Operator**

Thank you. We will now begin the question-and-answer session. [Operator Instructions] The first question is from Antonio Reale, Bank of America. Please go ahead.

**Antonio Reale**

Hi, good morning. It's Antonio from Bank of America. I have two questions, please. The first one on the NII outlook, and secondly on the strategic investment in Commerzbank. So you've increased revenue guidance for this year and I suspect this was mainly driven by NII, though I haven't seen reference to guidance on NII this year or next.

Now, Russia's been growing still. Deposit remuneration has been stable. Italy and Germany have had a strong quarter and you still have tailwinds from the replicating portfolio. Can you maybe just talk us through your expectations for NII into 2025, please? That's my first question.

The second question is on the investment. You've bought a stake that gives you optionality. I think you've said that clearly. This may or may not lead to a deal. I think in your remarks this morning to the media, you've also talked about this being a long process and you've cautioned it will take time and you want to convince Commerzbank stakeholders that M&A can create value, sort of implying that not all of the stakeholders are on the same page.

Now, we're talking about an intra-market deal and I think it's important not just for UniCredit and Commerzbank, but for Europe as a whole in terms of signaling. So my question for you is, what hurdles do you think we still need to overcome for this to move forward, given that I suspect by now you've engaged with all the key stakeholders? Thank you.

**Andrea Orcel**

Okay, so let me take NII first. So we expect a moderate reduction of NII next year and this should be partially offset by fees, but we confirmed that next year bottom line will not budge or beat this year. So there are a number of other dynamics in the P&L that will allow us to do that.

With respect to Commerzbank, this started as an investment and is an investment today and nothing else. So we are the largest investor in Commerzbank today, and as such, we are positive and excited that Commerzbank is now setting a course to improve its performance.

With respect to anything else, like in any of the situation, there will need to be a discussion with all the stakeholders at Commerzbank or around Commerzbank before we move any further. If you look at the timeline, the timeline is by definition longer than many people have been considering, but has a limit at some point, given that we cannot be invested forever without taking a decision of in or out. But I would not look at that decision being taken before a year from now.

**Antonio Reale**

Thank you.

**Operator**

The next question is from Delphine Lee, JP Morgan. Please go ahead.

**Delphine Lee**

Yes, thank you for taking my questions. So I've got two as well. First of all, just to come back again, sorry, on Commerz, would you ever consider going hostile? And do you see the German Trade Union at Commerzbank as a hurdle to delivering cost synergies? And what concessions do you think you have to offer to get them onboard?

And then, sorry, just to clarify on the NII, like also could just mention on the modest reduction, what rate assumptions do you make for next year? And if we're looking at 2% average ECB rates for next year, can you provide just like where you think the offset is on the sensitivity rates? What else can you highlight to help us understand why that resilience on NII? Thank you very much.

**Andrea Orcel**

Okay, Delphine, I'll take Commerzbank and then Stefan will take on the NII. So on Commerzbank, I think the definition of hostility is a matter of exactly that definition. So I think there are a number of stakeholders that are critical to the success of the transaction. First and foremost, the employee representatives in Germany, but also German institution, German clients, German public opinion.

So it takes time for the facts to sink and for all of these constituencies to being able to discuss openly what a transaction would mean. And therefore, it's very premature to discuss anything about that. There isn't anything on the table at the moment. There never was. At the moment, what there is, is an investor that has bought 21% and is very keen that that investment yields positively to us. But the process of engaging with all the key stakeholders will take some time.

At the end of that period or that time, we will assess where we are and as a function of that, we will take a decision as to whether we will do something more or stay as we are or sell out.

**Stefano Porro**

So Delphine, net interest income. So 24% will be more or less in line with 2023. Average Euribor for the year is 3.6% under our assumption. In relation to the Euribor assumption for next year, so we are expecting, first of all, the deposit facility rate, let's say around 3% this year, so end of ‘24, going around 2% at the end of 2025. All-in-all, we are expecting that the average Euribor next year will be below 2.5%. You can assume, on average between 2.2% and 2.3%.

In relation to the commercial trend, we are expecting all-in-all a stability of volumes, both on loans and deposit side, with a slight increase in the credit spread. So we have already experienced during this quarter an increase in the credit spread. We are also expecting a slight increase in the credit spread next year. Just a reminder, one basis point increase in the credit spread for us is around EUR 40 million more net interest income.

In relation to Russia, due to the compression, but also different assumption in relation to rates, we are expecting a few hundred million less of contribution from Russia next year.

**Delphine Lee**

Thank you very much.

**Operator**

The next question is from Ignacio Cerezo, UBS. Please go ahead.

**Ignacio Cerezo**

Yeah. Hi, good morning. Thank you for taking my questions. I've got two. First one is on Germany. I think we've seen like a 20% increase on the NPR number this quarter, but it doesn't seem to be any impact on provisions. So just understanding basically why that is and how concerned actually might you be about German asset quality continuing to deteriorate.

And the second one, actually, if you can give us a little bit more information about the impact on capital this quarter from the different transactions and how much pending impact are you expecting from each of them in Q4. Thank you.

**Andrea Orcel**

So Germany, first of all, important to take into consideration that German asset quality and also default rate this quarter has been impacted by a big ticket. We experienced in the nine months the impact arriving from a couple of big tickets. The overall cost of risk of Germany in the quarter was around 16 basis points.

When we look to the default rate, the default rate was above one, including this effect of this ticket. So it was around 1.4. But indeed, if you are taking into consideration the default rate here to-date, adjusted for these big tickets, that's a large corporate, the default rate is below one. So it's 0.7. So in a way, is in line with the same trend of last year.

So this is confirming that overall the performance of the portfolio is not deteriorating. So we're not seeing such a deterioration. Like, let's say in other countries, we do have overlays in Germany as well. The overall stock overlays is remaining flat at the end of this quarter to around EUR 1.7 billion.

In relation to the impact that they are having from strategic transactions, so I will start from this quarter. So in this quarter, we had around 26 basis points in terms of impact that are coming from strategic transactions. Slightly more than 10 basis points is connected with Commerzbank. Around 15 basis points is connected to the commitment that we have to purchase Aion/Vodeno, Allianz Life in Italy, and Alpha in Romania. We will have further impacts deriving from this acquisition in Q4 and during the course of 2025.

In Q4, such an impact can arrive up to 30 basis points, deriving fundamentally from the finalization of Alpha in Romania and from Aion/Vodeno. Aion/Vodeno can also cross the year, but currently we're assuming to have the impact by year end. Next year we will have the finalization of the internalization of the insurance. We will have until the full application of the Danish compromise, a further impact for around 20 basis points. That will be completely offset by the application of the Danish compromise.

**Ignacio Cerezo**

Thank you.

**Operator**

The next question is from Chris Hallam, Goldman Sachs. Please go ahead.

**Chris Hallam**

Yes, good morning, everybody. So two quick questions for me. So the first one, more broadly, if we were to see tariffs imposed on European exports, how would that impact the outlook for your corporate clients, both in terms of credit costs, but also loan demand?

And then second, on asset productivity, how would you expect to – the revenue to RWA picture to evolve in Italy over the next 12 months? Clearly, the progress there has been very strong. But as you start to absorb the impact of falling rates and there's some other levers you can pull to limit the decline in asset productivity, and perhaps how do you think that picture or the picture on that topic more broadly compares to your peers in Italy who may be a bit more focused on revenues versus asset productivity itself? Thank you.

**Stefano Porro**

So, I will start from the second. So in relation to the impacts from rates that are having -- the effect on profitability, for sure there will be an impact. But let's consider the impact they're having from the strategy. So, the strategy is assuming a further increase in fees for the group, but for Italy as well, coped with a lending that is a profitable lending.

So, we have commented more than once the net interest income return on capital. So, we will have an impact in Italy deriving from the Euribor reduction. All in all, this will impact the net interest income.

However, we're expecting to have a revenue to risk weighted asset average above 9% also from 2025 onwards. In relation to the lending trends and also the expectation of the lending trend for the future, let's start from this quarter. So this quarter, the average loan stock was down around 3 billion. More specifically, a part of that was Russia. So 700 of that was Russia. We grew more than one in Eastern Europe, and we had a reduction in Germany and in Italy.

The reduction is mainly on the corporate side, and the phenomenon is also different in comparison to what we experienced in the first part of the year. The expectation is connected to the level of the rates and the GDP, in the sense that on the level of the rates, we have already commented before, that's positive for the lending. The GDP in the Western Europe countries, we believe, will be around one.

So, all in all, we are expecting a stability in the stock of lending with demand growing up, especially on the short term and progressively during 2025 or some of the medium term. We will grow in Central and Eastern Europe, where we are expecting more stability in terms of dynamic of the stock in Italy and Germany.

The improvement in the demand for credit, we will believe it will be progressive. So it will not be sharp immediately after the reduction of the rates, but it will be progressive during the course of 2025.

**Operator**

The next question is from Andrea Filtri, Mediobanca. Please go ahead.

**Andrea Filtri**

Thank you. We noticed a very strong NII in Germany this quarter. I just wondered if there are any non-recurring items that you can flag to us.

Secondly, could you tell us when do you envisage to obtain full FICO status? And what do you think about the option of the Danish Compromise Square, i.e. leaving goods with deduction at the insurance unit when acquiring companies about book value via the insurance unit?

Finally, just like a clarification, my line was disturbed. When you said before about timing on a decision on Commerzbank, was it within one year or not before one year? Thank you.

**Stefano Porro**

So we start from Germany net interest income in the quarter. So first of all, there was a positive effect around EUR 40 million, just slightly less than that. That was positive for Germany, negative for the Group Corporate Centre because we started transferring a part of the trading-related activity from Germany to the parent company.

So this is around EUR 40 million. Then there is close to EUR10 million effect deriving from some write-backs on non-performing loans that positively impacted the quarter. However, I have to say that there was also a positive trend from the commercial perspective, especially when we are looking to the pricing.

So if we look at the average credit spread of the loan book in Germany, there was an increase of around 3 basis points quarter-on-quarter that, as a consequence, positively impacted the net interest income.

**Andrea Orcel**

With respect to Danish Compromise, I think I was wrong once and you were right, Andrea, in the past. But I will give you my opinion on the Danish Compromise squared. I think that the Danish Compromise is, let's say, an arbitrage, and I do think that if it is abused too much, it is going to be reviewed. So, my view is that there are some things where we could all argue that the RWE density is excessive, etc.

This is one where we have an advantage and it all balances. But if it becomes too much, I think we can see repercussions. That would be my view of it. So we are internalizing insurance, these bank insurance activities, they have a certain dynamic, and within the broader risk profile of a group, it works.

I think if that starts becoming excessive, we may have regulators taking a different position on it, but this is just a perception for me. With respect to Germany, definitely within one year.

**Andrea Filtri**

Thank you.

**Operator**

The next question is from Marco Nicolai, Jefferies. Please go ahead.

**Marco Nicolai**

Hi, good morning. First question on capital distribution. In case you decide to go for a full acquisition of commerce, do you think you will be always able to maintain the above EUR 8.6 billion distribution guidance also in the year of the integration or not? And related to this, do you think that the combined bank requires lower, higher common equity or one target compared to the 12.5%, 13% you referred before?

And the question on commission income. So year-on-year growth remains pretty strong, close to 9%. So, how do you see this trending in the coming quarters and in the coming years? And also this quarter, you had quite a bit of support from client hedging fees. And how recurring is this type of income? Thank you.

**Stefano Porro**

Okay, so I will start from fees. So effectively in the quarter, we had double-digit growth in many fee categories. So, including the client hedging one. So on the investment side, on financing and advisory side, and also the client hedging fee.

All in all, in the client hedging fee, I have to say that apart from some volatility deriving from some specific moment or some quarters, all in all, we're able to generate a pretty, let's say, resilient stock of fees over time.

In relation to the dynamic in future, we are expecting that apart from the volatility deriving from the market and the rebalancing of the portfolio by the clients, that will affect the investment fees. If you look at the investment fees and the gross sales, this year on average, we have done by quarter around EUR 13 billion of gross sales in every quarter, right? So quarter one, quarter two, quarter three.

I don't believe that we can have a repetition of that, let's say, every year. Having said that, the stock of the asset under management will grow, and so the asset under management fee will grow up.

In relation to the other component, we are expecting a contribution from advisory financing also during the course of 2025 and 2026. And the client hedging fees, as I told you, apart from general effect deriving from volatility, we believe that thanks to increasing the perimeter coverage of the clients, we can also assume a growth rate in 2025 in relation to the specific items.

Having said that, we believe that there are items like non-life insurance and payments that can generate an higher growth in comparison to client hedging fee.

**Andrea Orcel**

Let me take the other two. So capital, a few things. One, my conviction is that you don't make profitability and distribution by leveraging your capital. So you will always have us as on the conservative end of the capital in terms of CET1.

Then two considerations, however. The first consideration is Balfour. The most of our Balfour impact is operational risk. But if you think about it, we have the same operational risk today that we will have next year and the years after that. The operational risk today is evaluated through advanced models and through a historic series that put it quite low.

It is, if I may, artificial, but it gets boosted so much in a standardized way, and it doesn't differentiate between institutions. So like-for-like, my 12.5, 13 should be 60, 70 basis points lower. We're not doing that, but just for you to understand how we think about it.

With respect to a larger acquisition, again, we would not leverage ourselves to do an acquisition. Over time, we need to look at what is the right capital for the business. And we note that some competitors are at 12 or just at 12. Some others are 12.5. We have not had to address that issue because we've been so much higher than where we were targeting.

But, I think these are all considerations. But the pressure of, we need to get to certain profitability or we need to get to certain distribution, therefore we take capital down and we leverage is not going to be one that we do.

On distributions, first of all, there is no deal on the table. Second of all, quite difficult to have a crystal ball of what the deal could be. I would go with principles which usually are more binding than the numbers. We're very committed to rewarding our shareholders.

We understand that the level of distribution is a key driver. And whatever we do should be viewed in a way that within a realistic period of time, our distribution on a per share basis go up, not down. Because otherwise, as we all went through school in finance, why would we do that if the cash flows or the dividends declined? Okay, it would be a destruction of value.

So, we're very committed to giving a best in class distribution to our shareholders. But best in class distribution was mostly share buyback in the first three years of activity because we viewed so much on express value in our shares that, in my opinion, it was a no brainer.

As we move up and the rate of growth is less, we have gradually tilted towards cash dividends because it is probably better reflective of a sustainable growth path that we want to have going forward. And that concept will remain.

Now, to answer your question more directly, we will do everything we can do to not dilute well. Firstly, we do that acquisition, our dividend payout does not move. It's 50%, it stays 50%. Secondly, we will do everything we can to maintain the dividend per share to at least equal to what we have before the acquisition. That does not mean we will succeed in year one, but we're very, very confident we can do that or better in year two and beyond.

Thirdly, with respect to the share buyback, I'll give you an alternative interpretation. Until today, we've done share buybacks. Why? We've done share buybacks to reduce the share count at an attractive rate and propel furthers the EPS and the DPS going forward. Right.

So we've done that to inject more growth into our EPS and our DPS. But there is an alternative view of things. I could keep the share count stable and increase further my EPS and DPS by having more earnings and more dividends.

An acquisition is the use of my excess capital, and to a certain extent, it could also be the use of some of my share buyback at the initial point to buy more earnings, which generates more dividend and therefore propel my EPS and DPS. So it's just an alternative view of things.

When we stabilize, let's take it like that. And I tell people that if they talk to me about five years or whatever, I'm not listening. For me, stabilize is year two onward. The first year is always a little bit like that.

When we stabilize, our philosophy of distributions should not move a lot, which means we will have distribution that are a high percentage of a net income generated. In which mix? Well, we will see what is best for our shareholders. Is it 50% cash dividend and 50% share buyback? Is it 60% cash dividend and 40% share buyback? I cannot say.

Today, it's too much speculation. But I think if you look at the principle I know and the management team and the board know full well that we have a distribution policy. It needs to be defended, and if we find a way to strengthen the bank, grow the bank, and improve the distribution policy a little bit later by taking maybe a little bit of uncertainty in the year one, that is something we can do. If it takes more than that, this touches on our strict criteria of investment. And we will not do that.

And I hope that that answers your question.

**Marco Nicolai**

That's very clear. Thank you.

**Operator**

The next question is from Azzurra Guelfi, Citi. Please go ahead.

**Azzurra Guelfi**

Hi. Good morning. One quick question on your organic capital generation. You continue quarter after quarter to surprise us on the strength of this, which is linked to profitability but also to the capital efficiency measure.

I read a comment about the support by organic capital generation, the best-in-class distribution for the ambition for 2025 and 2026. Can you give us a little bit of color on what the organic capital generation could look like, also in light of the fact that maybe there could be some lending growth?

**Andrea Orcel**

So I will give you a broad picture. And I'm sure Stefano will add. So, organic capital generation, the organic capital generation comes from two sources. One is, let's call it commercial or current. And that is the earnings quality. If I go for volume in NII, I will not have a lot of capital generation. If I have more fee-to-revenue, I will have a lot of capital generation.

So, what we have done in these last four years is to improve the profitability of NII to prepare for a time when, due to rates decline and cost of risk increase, NII will be contributing less to our profitability, because obviously we will be making a lower margin in general.

And we have also done that by continuously increasing our fees, because fees have a one-to-one capital generation. That's the commercial one. The commercial one will slightly tilt in the future. On the one hand, you're going to have the exact mirror image of what you've had in the last four years. In these last four years, most European banks have had declining volume, increasing margin.

That is paradise for capital generation. As rates go down, you're going to have increasing volume and decreasing margin. This is how it goes exactly in the opposite direction, i.e., in order to maintain, you need to do more volume, to do more volume, you're consuming more capital. Where we come from, we're declining, so we consume less capital, but the margin is carrying the revenue to RWAs.

Every bank will have pressure on revenue to RWAs going forward. We think that that pressure we can minimize by the mix of client and product. So, moving the mix of product towards consumer, away from mortgages, allows us to have more insulation in the margin, which allows us to be less hit by a compression of margins that would happen later.

So, we've worked on that on one side. On the fees, obviously, the more fees you have as a total of revenue, those are capital neutral, and those generate one-to-one. So, this is the commercial and how you do it.

So, if you look at the commercial for the next three years, the overall revenue, making EUR 1 of revenue or EUR 1 revenue, it will generate less capital organically than what it has generated in the past three years. That's true from everybody. Our job is to minimize that less.

Then there is another driver. The other driver that we had was that in 2021, we had a very inefficient portfolio of lending and usage of capital. And over the last four years, we have made it more and more and more and more efficient. So now, I would say that most of our lending book is adjusted for risk above the cost of equity.

I would say probably 70%, 75% of it. Can we take it to 80%, 85%? Yes. Can we take it to 100%? No. It's never the case because you will have decision on, I'll do this loan to this client. It's below my cost of equity, but I'll give him three years to mature because I want the growth, et cetera.

So, the advantage we have been crystallizing through that is going to run to zero. When will it run to zero? Well, it depends, but we think that by the end of 2025, we're probably done with that.

So, that extra boost that has allowed us to do something that seems to defy gravity, i.e. generate more capital than our net income, is going to converge down from ‘26 onward. However, because there is always a however, Stefano will also give you a view on infamous DTAs, which are going to be capital positive from sometime in 26 for the next two or three years.

And so, the relay from the portfolio, from the old portfolio, will be taken by the crystallization of the value on capital of the DTAs. And this is a good point to pass it to Stefano.

**Stefano Porro**

So, some data points. ‘24, the organic capital generation is around 400 basis points adjusted for extraordinary transactions. So, not taking into consideration extraordinary transactions. After this, more than 300 is the profit, and then the balance is a risk-weighted asset. When we look to 2025, as we have already highlighted, both for 2025 and 2026, we are guiding for a profit. So, our ambition is to have a profit of above nine. So, we have an organic capital generation from the profit above 300 basis points.

As highlighted by Andrea, during the course of 2025, we are expecting to be able to generate further capital via the management of the risk-weighted asset of the portfolio. This should be able to compensate some model changes effect and the potential growth that are in front of the business, so from the lending.

In relation to the model changes, we are expecting to have a few billions that are in front of the model changes in terms of the risk-weighted asset increase in Q4, and a few billions also during the course of 2025. Having said that, this amount, as highlighted, will be offset by the active portfolio management action that we will put in place.

From 2026 onwards, we are in a way a target, i.e. something more than 300 basis points of capital generated by the profit, and active portfolio management action that should be, to a lower extent, able to fund the growth of the lending, but the difference is not meaningful in terms of basis points difference.

With regards to DTAs, where the benefit to the capital from DTAs is coming from? It's coming from utilization of tax loss carry forward. Currently, we have recognized in our balance sheet around 3.4 billion of assets that are related to tax loss carry forward.

When we are going to utilize these assets, we are going to have not anymore in the balance sheet an asset that is deducted from the capital. All in all, the contribution to the common equity Tier 1 starting from next year can be between 15 and 20 basis points of contribution to the common equity Tier 1 ratio, positive per year.

Again, the reason is source is, utilization of the tax loss carry forward DTAs that we have is fundamental in Italy. Positive effect is between 15 and 20 basis points per year starting from 2025 onwards.

**Operator**

The last question is from Hugo Cruz, KBW. Please go ahead.

**Hugo Cruz**

Hi, thank you for the time. Just two questions. First of all, on Commerz, can you give us a deadline for you to make a decision on the financial instruments that would raise your stake to 21%? How long can you wait? And I think you said that you will wait for the Commerz Investor Day. I'm not sure if I'm correct.

And second, on cost of risk, can you remind us of your guidance for the guidance for 2025 and if it assumes any overlay usage? Thank you.

**Andrea Orcel**

So let me start with Commerzbank. So I think let's not confuse two different things. The first one is we have asked the ECB for authorization to move our participation in Commerzbank from 9.5% to up to a maximum of 29.9%, which is the level before you need to launch a bid.

We would not be able to move or to convert what you call financial instruments into physical shares or into having the physical shares under our control until we have ECB approval. ECB approval takes 60 days, but the 60 days gets stopped every time there is a new question or there is a new doubt or whatever, and we need to give them back. So, they're not 60 days, they're actually longer.

If you tell me when the process will be finished, I will tell you when we move on the financial instrument. I don't know. I don't think at this point in time it makes much of a difference, because at some point within the time that interests us, we will have “control of the shares and everything else”.

The second thing that is important is that this is a process that we started to have maximum flexibility. But if there were a process for an acquisition, that follows a completely different process. So, fundamentally, this current ECB approval is not relevant for a full bid on Commerzbank. If we were to do that, that will follow a completely different process, which may go in parallel after, before the 29.9% approval. So the two are not on the critical path of each other.

Then I just said, with respect to Investor Day, that given that we believe that the two banks are the mirror image of each other, and we're pretty convinced of what can be done, we are quite interested as a shareholder that has a lot of money on the plate to see what the Investor Day will deliver on bridging some, all, or more than all of the gap that Commerzbank has with HVB in Germany.

The second question, the second question, cost of risk and overlays. So, firstly, on cost of risk, we have said that we are confident we can maintain a cost of risk of 20 to 25 basis points through the cycle. Clearly, at the moment, we're running a lot lower.

In keeping the cost of risk at 20 to 25 basis point through the cycle, we said that there could be two scenarios to simplify. Scenario A, we have all, particularly I, been too nervous about the credit cycle in Europe, and it's relatively benign.

If it is relatively benign, we will be able to keep the cost of risk of our group to 20% to 25%, either not touching or touching the overlays to a minimum level or to a limited level. In this case, we would still need to release them because the overlays are tied, very strictly tied to specific event and to specific situations. And therefore, you would have a profitability of the bank that is actually propelled by the release of the lion's share of the overlays.

In the other scenario, which is the other extreme, that the credit cycle is, as we all think, going to be a little bit more daunting. If that is the case, we will cover the 20 to 25 basis points of cost of risk for the cycle through normal LLPs through the years. And the excess, the 20% to 25%, would be insured by releasing the overlays on those situations that we have already identified.

So, really, you have really two situations. Above and beyond the fact that we believe that the quality of our loan portfolio is quite good and we've really scrubbed it a and that our ordinary provisions on the conservative side, so we are confident.

If the credit cycle is very negative, then we have the overlays to keep it at 20% to 25%. If it's relatively mild, then the overlays still need to be released. But instead of going to cover the excess provision, they will go directly to the bottom line to propel our net income.

This is why, when we talked about idiosyncratic accelerator, we use line of defense as one of them, because the overlays will either ensure that our cost of risk is below most of our peers, other peers, or if that's not necessary, propel directly the bottom line by being released. I hope I make sense.

**Hugo Cruz**

Very clear, thank you.

**Operator**

So that was the last question. I turn the conference back to the management for any closing remarks.

**Andrea Orcel**

So thank you very much, everybody, for your time. And we'll see you at the next quarterly result. Thank you.

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